

September 11, 2006

Kansas Hospital Association
Tom Bell
Fred Lucky

Kansas Medical Society
Jerry Slaughter

Dear Sirs:

I am writing in reference to issues raised by the Kansas Hospital Association and the Kansas Medical Society at the Kansas Health Care Access Improvement Panel meeting on August 28, 2006. During that meeting it is my understanding that the parties expressed concern regarding the potential impact on payment rates resulting from the expansion of managed care in the Kansas Medicaid Program. Specifically, the parties expressed concern that the new managed care contractors would not guarantee the pass through of recent payment rate increases resulting from the implementation of the hospital provider assessment program. We would like to take this opportunity to respond to these concerns related to the pass through of rate increases from the hospital provider assessments.

Information regarding a hospital rate increase effective March 1, 2006 and a physician fee increase effective July 1, 2006 were provided to Children's Mercy Family Health Partners (CMFHP) by the State of Kansas during the rate development process. CMFHP was provided the increased hospital payment rates and a detailed list of Kansas Medicaid fee-for-service payments for certain physician and physician related services, including those that were increased July 1, 2006. The State indicated the increased payments were funded through the recently enacted hospital provider assessments. CMFHP used the increased Kansas Medicaid fee-for-service payment rates as the basis to develop our rate proposal for the State of Kansas bid.

Pursuant to the information provided to us, and the development of our bid, it is our intent to compensate CMFHP contracting providers in the State of Kansas based on the recently increased Kansas Medicaid fee-for-service schedule for the HealthWave 19 and HealthWave 21 programs. This intent is reflected in our Provider Agreements. Further, you have our assurance that any capitation rate increase(s) provided to us during the term of our contract with the Kansas Health Policy Authority that are the result of increases in physician and/or hospital reimbursement will be passed through to our contracting providers.

It is our understanding that concerns were also raised regarding possible decreases in DSH payments due to the expansion of managed care. We would like to point out that other states have successfully amended their Upper Payment Limit calculations to take into consideration managed care payments so as not to reduce DSH payments.

I welcome dialogue regarding these issues or any other concerns you may have. If I can be of assistance please call me at (816) 855-1871. We look forward to working with the KHA and KMS in serving the needs of Medicaid recipients in Kansas.

Sincerely,

Robert D. Finuf, II
Chief Executive Officer

Cc: Andy Allison, KHPA
Scott Brunner, KHPA